Village Policy: VB-15

Date Approved: June 24, 1996

POLICY TITLE: Village of Howard Investment Policy

AUTHORIZATION: Village Board Meeting June 24, 1996

POLICY STATEMENT:

1.0 POLICY

It is the policy of the Village of Howard to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Village and conforming to all state and local statutes governing the investment of public funds.

2.0 Scope:

This investment policy applies to all cash investments of the Village of Howard. These assets are presented in the Village's Comprehensive Annual Financial Report as part of the following funds:

2.1 Funds:

2.1.1 General Fund
2.1.2 Special Revenue Funds
2.1.3 Capital Project Funds
2.1.4 Enterprise Funds
2.1.5 Trust and Agency Funds

3.0 Prudence:

Investments shall be made with judgment and care -- under circumstances then prevailing – which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

3.1

The standard of prudence to be used by the Finance Director/Treasurer shall be the **"prudent person"** standard and shall be applied in the context of managing an overall portfolio. The Finance Director/Treasurer acting in accordance with written procedures

and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price's changes provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objective

The primary objectives, in priority order, of the Village's investment activities shall be:

4.1 Safety:

Safety of principal is the foremost objective of the investment program. Investments of the Village of Howard shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain the objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

4.2 Liquidity:

The Village of Howard's investment portfolio will remain sufficiently liquid to enable the Village to meet all operating requirements which might be reasonably anticipated.

4.3 Return on Investment:

The Village of Howard's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the Village's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority:

Authority to manage the Village's investment program is derived from the Wisconsin Statutes 62.17(7), 66.04(2) and 2193.05. Management responsibility for the investment program is hereby delegated to the Finance Director/Treasurer who shall adhere to this investment policy. Procedures shall be developed to include reference to: safekeeping, wire transfer agreements, collateral/depository agreements and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transaction. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director/Treasurer. The Finance Director/Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

6.0 Ethics and Conflicts of Interest:

Elected Officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment. Elected officials and employees shall disclose to the President or Administrator any material financial interest in financial institutions that conduct business with the Village. Elected Officials and employees shall subordinate their personal investment transactions to those of the Village, particularly with regard to the time of purchase and sales.

7.0 Authorized Financial Dealers and Institutions:

The Finance Director/Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security **broker/dealers** selected by credit worthiness who are authorized to provide investment services in the State of Wisconsin. These may include **primary dealers** or regional dealers that qualify under **Securities & Exchange Commission Rule 15C3-1**. No public deposit shall be made except in a **qualified public depository** as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must apply the Finance Director/Treasurer, at his/her request, with the following: audited financial statements, proof of state registration, certification of having read the Village's investment policy and depository contracts.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Finance Director/Treasurer.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the Village invests.

8.0 Authorized & Suitable Investments:

The Village is empowered by statute to invest in the following types of securities: Finance Director/Treasurer should attempt to match the Village's cash payment schedule whenever possible.

8.1

Certificates of deposits (CD's) in any credit union, bank, savings bank, trust company or saving and loan association provided. These time deposits must be collateralized by either (1) U.S. government or agencies securities with a maturity under seven years or (2) limited to $500,000 per financial institution.

8.2

U.S. Treasury bonds or notes.

8.3

The State of Wisconsin Local Government Investment Pool or the Wisconsin Investment Trust.

8.4

Any investment pools, savings, or similar accounts offered by banks. Such deposit must be collateralized by U.S. government securities or agency securities or limited to $500,000 per financial institution.

8.5

Direct investment in U.S. government agencies, mortgage backed securities, commercial paper and commercial paper derivatives, bankers acceptance and mutual funds are not permitted.

9.0 Collateralization:

The Village shall strive to maintain all cash and investments within Category One (Governmental Accounting Standards Board-Statements No. 3 which includes authorized investment vehicles that are insured or registered or which are collateralized by or evidenced by securities held by the Village or its agent in the Village's name.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Village and retained.

The right of collateral substitution is granted.

10.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the Village of Howard shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be held by a third party custodian designated by the Finance Director/Treasurer and evidenced by safekeeping receipts or with evidence of insurance rated AA by AM Best

11.0 Diversification:

The Village of Howard will diversify its investments by security type and institution, with the exception of U.S. Treasury securities and authorized pools, no more than 50% of the Village's total investment portfolio will be invested in a single security type or with a single financial institution, unless fully collateralized.

12.0 Maximum Maturities:

To the extent possible, the Village of Howard will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than two (2) years from the date of purchase. However, the Village may collateralize its repurchase agreements using longer-dated investments not to exceed seven year to maturity if their market value equals at least 105% at time of initial purchase. Certificates of deposits may be invested for up to seven (7) years.

Reserved funds may be invested in securities exceeding two (2) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

13.0 Internal Control:

Annually, the Village will have an independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. This review will coincide with the Village's annual audit.

14.0 Performance Standards:

The investment portfolio will be designed to obtain a market average rate of return during the budgetary and economic cycles, taking into account the Village's investment risk constraints and cash flow needs.

14.1 Market Yield (Benchmark):

The Village's investment strategy is passive. Given this strategy, the basis used by the Finance Director/Treasurer to determine whether market yields are being achieved shall be the average Fed Funds rate.

15.0 Reporting:

The Treasurer is charged with responsibility of including a market report on investment activity and returns for the Village Board. The report should be prepared at the time the CAFR is presented to the Board or earlier.

16.0 Investment Policy Adoption:

The Village of Howard's investment policy shall be adopted by the Village Board. The policy shall be periodically reviewed by the Village Board and any modifications made thereto must be approved by the Village Board. Such review shall not occur more than annually.

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKER'S ACCEPTANCE (BA): A draft, bill, or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered for securities.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the Village of Howard. It includes the transmittal letter, organizational chart, list of principal officials, the general purpose financial statements, the combining, individual fund and account group financial statements and schedules, as well as the auditor's reports, and selected financial and demographic information.

CERTFICATES OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denominated CD's are typically negotiable.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date

DEALER: A dealer, as opposed to a broker, acts as a principal in all transaction, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payments and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DEBENTURE: A bond secured only the general credit of issuer.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value. (e.g. U.S. Treasury bills.)

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S& L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUND RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open market operations.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable rate mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan

associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA, or FMHM mortgages. The term pass-through is often used to describe Ginnie Mae.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices if narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTING POOL (LGIP): The aggregate of all funds form political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and cold presumably.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements that establish each party's rights in the transaction. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date open which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserves most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRUDENT PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state-the-so-called legal list. In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve

Bank of New York and are subject to its formal oversight. Primary dealers include Securities and Exchange Commission (SEC).

REGISTERED SECURITY: A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

SECURITIES: A form of investment evidenced by written document reflecting ownership usually in the form of stock certificate, bond indenture, mutual fund, etc.

SECURITIES AND EXCHANGE COMMISSION (SEC): A U.S. governmental agency that supervises the exchange of securities.